

# CONTRACT TO AUDIT ACCOUNTS

OF

(Individually Licensed Facility Receiving Day Care Subsidy Payments)

FOR THE PERIOD

FROM \_\_\_\_\_ through \_\_\_\_\_

Please include current email information below. If your email information changes after this contract is approved, updated information should be submitted via the form located at:  
<http://www.comptroller.state.tn.us/ma/forminst.htm>.

Auditor's E-Mail Address:

\_\_\_\_\_

Organization's E-Mail Address:

\_\_\_\_\_

(See Instruction # 8)

Be sure to check the [topical index on our web site for day care information](http://www.comptroller.state.tn.us/ma/reference.htm),  
<http://www.comptroller.state.tn.us/ma/reference.htm>.

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# CONTRACT TO AUDIT ACCOUNTS

OF \_\_\_\_\_  
(Name of Individually Licensed Facility/Location of Individually Licensed Facility)

This agreement made this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, by and between

\_\_\_\_\_  
(Auditor)

\_\_\_\_\_  
(Full Address)

\_\_\_\_\_, hereinafter referred to as the "auditor"

and \_\_\_\_\_, of \_\_\_\_\_  
(Legal Name of Organization) (Full Address)

\_\_\_\_\_, hereinafter referred to as the  
"organization", as follows:

1. In accordance with the requirements of the laws and/or regulations of the State of Tennessee, the auditor shall perform an engagement to apply certain agreed upon procedures for the above named facility of the organization for the period beginning \_\_\_\_\_ and ending \_\_\_\_\_.

2. The auditor shall conduct the engagement and submit a report in accordance with the AICPA's standards for Agreed-Upon Procedures. The report format shall substantially comply with the reporting example in this contract.

3. The auditor shall furnish copies of the report to all specified parties, including \_\_\_\_\_ copies of the report to be filed with the organization's governing body, two (2) copies of the report to be filed with the Comptroller's Office, and one (1) copy to be filed with the Department of Human Services (See Instruction 9). The report shall be filed by \_\_\_\_\_, which should be no later than 6 months following the end of the audit period. **There are no provisions for extensions of the due date.** Requirements for additional copies should be addressed below.

4. The auditor agrees to retain working papers for no less than three (3) years from the date the report is received by the Department of Audit and that all audit working papers shall, upon request, be made available for review by the Comptroller of the Treasury or the Comptroller's representatives, agents, and legal counsel. These working papers shall be made available during normal working hours while the audit is in progress and/or subsequent to the completion of the report. The working papers will be reviewed at the office of the auditor or the entity, at the Comptroller's discretion.

5. Any evidence of fraud, such as defalcation, misappropriation, misfeasance, malfeasance, embezzlement or other illegal acts shall be reported by the auditor, **in writing immediately upon discovery**, to the Comptroller of the Treasury, State of Tennessee, who shall under all circumstances have the discretionary authority to directly investigate such matters. If the circumstances disclosed by the engagement call for a more detailed investigation by the auditor than necessary under ordinary circumstances, the auditor shall inform the organization's governing body in writing of the need for such additional investigation and the additional compensation required therefor. Upon approval by the Comptroller of the Treasury, an amendment to this contract may be made by the organization's governing body and the auditor for such additional investigation.

6. (Special Provisions) \_\_\_\_\_

7. In consideration of the satisfactory performance of the provisions of this contract, the organization shall pay to the auditor a fee of \_\_\_\_\_. (Fees may be per diem or fixed amounts. If per diem, an estimated gross fee should be furnished to the governing unit for budgetary purposes. A schedule of such per diem fees should be set forth below. Interim billings may be arranged with consent of both parties to this contract.)

(Estimated gross fee: \_\_\_\_\_)

## SCHEDULE OF PER DIEM FEES:

8. As the auditor and authorized representative of the firm, I do hereby affirm that our office is currently registered with the Tennessee State Board of Accountancy and our organization has participated in an external quality control review at least once every three (3) years, conducted by an organization not affiliated with our firm, that a copy of our most recent external quality control review report has been provided to the organization, and that all members of the staff assigned to this audit have obtained the necessary hours of continuing professional education required by the AICPA. In addition, as the auditor I also affirm that all auditors participating in the engagement are independent under the requirements of the AICPA.

9. Day Care Agreed-Upon Procedures (Refer to Instructions/Examples):

a. Review and report any weaknesses relating to internal controls over disbursements. Base the test work on the items tested in 9b and 9c. Weaknesses should be reported so that the control feature being tested, the number of items tested and the number of exceptions are reported.

b. Prepare a schedule of salaries and wages identifying each employee and their related wages or salary and position. Include columns for employee name and position, payment period, actual pay periods worked, amount to be reported on the W-2 per payroll records, base pay (hourly/salary amount), period of employment, those salaries and wages traced to annual W-2s, those salaries and wages traced to supporting documentation, and variances. The aggregate salaries for all employees should also be presented in the schedule. At least 10 percent of these salaries must be traced to the W-2. At least 10 percent

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of the weekly, biweekly, or monthly payments must be traced to time reports. Report any variances or lack of or insufficient supporting documentation. The sample selected must include the salaries of officers, directors and any other person receiving more than the median income for the State of Tennessee. If this group exceeds the 10 percent limits, no further testing is necessary. Otherwise, a random selection of additional payments should be traced to the W-2s and supporting documentation. When testing payments to individuals who do not receive a W-2 (i.e., owners, etc.) trace to adequate alternative documentation.

c. Prepare a schedule of expenditures (cash basis) by natural classification and direct and indirect expenditures. Randomly test 10 percent of the dollars (excluding salaries tested above) for appropriate classification and supporting documentation. The classifications listed below are the minimum classifications to be presented. If the Other classification exceeds 10 percent of the total expenditures, a separate schedule of these expenditures is required. Additional classifications may be used to eliminate the supplemental disclosure. Include columns for classification, direct expenditures, percent of direct to total, indirect expenditures (overhead), percent of overhead to total, and total expenses. Identify any related party transactions that are discovered during testing, including parties and amounts.

10. This writing contains all terms of this contract. There are no other agreements between the parties hereto and no other agreements relative hereto shall be enforceable, unless entered into in accordance with the procedures set out herein and approved by the Comptroller of the Treasury, State of Tennessee.

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_____ Audit Firm		_____ Organization	
_____ Title/Position		_____ Title/Position	
_____ Print or Type Signature Name		_____ Print or Type Signature Name	
By _____ Signature		By _____ Signature	
Date: _____		Date: _____	
_____ Approved by the Comptroller of the Treasury, State of Tennessee			
By _____ For the Comptroller		Date: _____	

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### INSTRUCTIONS/EXAMPLES Contract to Audit Accounts

#### Examples:

#### (9b) Schedule of Salaries and Wages

Employee Name/Position	Payment Period	Actual Pay Periods Worked	Amount to be Reported on W-2 per payroll records	Base Pay	Period of Employment	Traced to W-2	Traced to Supporting Documentation*	
Jane Doe/Director	Monthly	12	\$35,000	\$2,916.67	7-1-92 thru current	X	12	Pay not approved minutes
Sam White/Board Chairman	Monthly	12	\$5,000	\$416.67	7-1-94 thru current	X	12	
Jennie Moore/Child Care Worker	Weekly	52	\$15,000	\$7.20/hr	1-1-03 through 12-22-03		1	Timesheet not approved by Direx
Mattie Doll/Child Care Worker	Weekly	52	\$14,200	\$6.80/hr	1-1-03 through current		1	
Rita Roe/Child Care Worker	Weekly	52	\$14,200	\$6.80/hr	1-1-03 through 12/31/2007		1	
Betty Right/Child Care Worker	Weekly	26	\$7,100	\$6.80/hr	1-1-03 through 6/30/2007		2	1 Time foot to paid.
Jimmy Like/Child Care Worker	Weekly	13	\$3,550	\$6.80/hr	1-1-03 through 3-31-2007			
Total	284 pay periods	219	\$94,050	NA	NA	2	29 pay period	

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\* See instruction 7. Periods tested must equal at least 10% of actual payment periods worked.

#### (9c) Schedule of Expenditures

Classification	Direct	Percent of	Indirect	Total expenses
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	Expenditures	Direct to Total	Expenditures (Overhead)	Percent of Overhead to Total	
Salaries	\$71,800	64.2	\$40,000	35.8	\$111,800
Fringe Benefits	10,000	58.8	7,000	41.2	17,000
Liability Insurance			20,000	100	20,000
Worker's Compensation Insurance	5,000	71.4	2,000	28.6	7,000
Utilities	7,000	73.7	2,500	26.3	9,500
Food	25,000	100			25,000
Contracted Professional and Consulting Services			7,000	100	7,000
Rent/Mortgage Payments (principle and interest)	15,000	75	5,000	25	20,000
Maintenance	1,000	58.8	700	41.2	1,700
Training	2,000	80	500	20	2,500
Fixed Assets Purchased	9,000	75	3,000	25	12,000
Other Costs	2,500	38.5	4,000	61.5	6,500
Totals	\$148,300	61.8	\$91,700	38.2	\$240,000

Summary of tests and variances (minimum to test \$12,820):

25 invoices totaling \$17,245.33 were tested. Of those tested 4 had incomplete supporting documentation, 3 had no evidence that they had been tested for accuracy prior to payment, 2 were not cancelled, 1 was classified as maintenance and should have been classified as fixed assets purchased, and 1 had not been approved as provided by company policies. The aggregate value of these purchases was \$9,424.72. The amounts for maintenance and fixed assets purchased have been restated to reflect the actual amounts per our test work.

### Instructions:

- All contracts for agreed upon procedures engagements require the prior approval of the Comptroller of the Treasury, State of Tennessee. For legal organizations with multiple licensed facilities, a separate contract and report should be issued for each facility.
- The contract should be executed in triplicate and submitted to the Comptroller of the Treasury, State of Tennessee, Division of Municipal Audit, ~~414 Union Street, Suite 1100, Nashville, Tennessee, 37249-1718.~~
- Upon approval by the Comptroller of the Treasury, State of Tennessee, one contract will be returned to the organization, one forwarded to the auditor, and one retained by the Comptroller of the Treasury. The engagement should not be started before the contract is approved.
- If, after being approved, the contract is modified by either of the parties, the modification must be reduced to writing and submitted to the Comptroller of the Treasury, State of Tennessee, for approval. No change shall be effective unless approved by the Comptroller. Original signatures are required on all copies of the contract. Retyped copies of this contract will not be approved. However, photo copies are permissible.
- The number of copies (specified in paragraph 3 of the contract) of the report of audit and any other written report by the auditor shall be filed with the Comptroller of the Treasury, State of Tennessee, when (or prior to) submitting an invoice to the entity for services rendered. These reports, as filed with the Comptroller of the Treasury, State of Tennessee, become a matter of public record and are available for inspection.
- Any firm submitting contracts for approval must file a single copy of the firm's most recent external quality control review report with the Comptroller of the Treasury. If a copy of the most recent external quality control review report is not on file with the Comptroller of the Treasury, submitted contracts will not be approved.
- Supporting Documentation Defined (as listed below or similar documentation):

#### Payroll:

Timesheets, pay authorization in minutes etc., payroll journals, cancelled checks, allocation methodology, and approval signatures.

#### Disbursements:

Invoices, (footing, cancellation, authorization, dates), purchase orders (if required), bids or price quotes, cancelled checks or other payment documentation (signors, authorization, endorsement, payee, dates), receiving reports, delivery tickets, etc.. (person receiving, compared to invoice for agreement, items shipped and received agree or notations of exceptions).

- Internal Control – Internal control findings should be developed in response to deficiencies noted during individual transaction testing. If you believe that your testing provides sufficient information to develop findings related to the transaction cycle, such as lack of segregation of duties, you may do so, but this is not required.

- Both the auditor and the entity are responsible for filing updated contact information with the Comptroller's Office, including email addresses, phone numbers, postal address, etc. To submit any changes, please access our web site at:

<http://www.comptroller.state.tn.us/ma/maforms.htm>

- If the organization does not have internet access, please contact the appropriate division to obtain a form and mail the completed form to the address in instruction 2.

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10. Audit reports submitted to the Tennessee Department of Human Services should be mailed to:

Jim Jones, Director  
Office of Internal Audit  
Department of Human Services  
400 Deaderick Street, 3rd Floor  
Nashville, TN 37248-0100.

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